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21 March 1952

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CURRENT INTELLIGENCE DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

State Dept. review completed

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GENERAL

1. Berlin Element, HICOG, estimates long-range objectives of recent Soviet note: In considering the long-range objectives of the recent Soviet note on a German peace treaty, HICOG Berlin states that East Germany might conduct new elections under a German Control Commission, including West German representatives, in preparation for a separate peace treaty between the USSR and a "representative all-German body."

The Soviet proposals, HICOG believes, may have been drafted to allow for this possibility in the event a four-power conference fails to materialize or fails to prevent the promulgation of the Contractual Agreements. The USSR would then have a "legal and moral basis" to blame the Western powers for the split of Germany, to conclude a separate peace treaty with some form of German National Committee, and to proceed openly with the expansion of the East German armed forces.

25X1
Comment: There is no evidence that the USSR intends to take the unlikely step of concluding a separate peace treaty with East Germany.

EASTERN EUROPE

2. Anti-Italian propaganda in Yugoslavia increases sharply: Anti-Italian propaganda in the Yugoslav press has increased sharply since Premier de Gasperi's statement in Lisbon rejecting Marshal Tito's proposal for Yugoslav-Italian joint rule over the Free Territory of Trieste.

More recently, the press has concentrated on refuting Italian charges of Yugoslav discrimination and brutality in Zone B of the Free Territory. The Allied Military Government in Trieste is also being increasingly criticized for "tacitly

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agreeing" to Italian measures intended to return Zone A to Italy in violation of the Italian Peace Treaty. [REDACTED]

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25X1 [REDACTED]

Comment: Marshal Tito stated on 12 March that Italy and Yugoslavia "have not come nearer each other by one inch, and what is more, there is a certain deterioration instead of improvement in the situation."

As a result of the policy to apply Italian laws to Zone A whenever feasible, AMG has suffered from a constant stream of criticism from Yugoslavia as well as from all the non-Italian parties in the Territory. The specific issue at the present time is the use of the Italian electoral law, which would favor the pro-Italian parties, in the impending communal elections.

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FAR EAST

3. Reparations issue a major stumbling block in Japan-China treaty talks: The question of reparations now appears to be a major point of dissension in the Japan-China treaty talks, according to a report from the US Charge at Taipei. Japan maintains that it is unnecessary to include a provision for reparations, since Japanese property on the mainland -- 70 percent of Japan's former overseas assets -- has already been relinquished; furthermore, a reparations clause might prevent the treaty's ratification in the Japanese Diet. Nationalist China believes that Japan is opposed to a reparations clause in order to leave the door open for a later deal with the Chinese Communists.

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Comment: Neither Japan nor China anticipates the payment of reparations to the Nationalist Government. However, the inclusion of a reparations clause for damages incurred on the mainland would imply Japan's recognition of Nationalist sovereignty over areas now under control of the Chinese Communists -- a position which goes beyond that originally contemplated in Yoshida's letter to Dulles.

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- 25X1
6. Economic problems seen motivating Peiping's biological warfare charges: The American Consul General in Hong Kong points out that a very likely motive for Peiping's BW propaganda is to divert public attention from internal difficulties. The anti-corruption campaign has had a shattering effect on morale in China and has disorganized economic activities. Drought and disease in large areas of north and east China presage a grim year for the average Chinese and make it expedient for the Communists to turn public hatred abroad. [REDACTED]
- 25X1

25X1

Comment: The effects on the economy of drought, disease, and disorganization occasioned by the anti-corruption campaign cannot as yet be assessed. Peiping has so far been successful in maintaining the general levels of production. An increasing proportion, however, is being diverted toward support of the military program. Communist propaganda no longer promises a general increase in the standard of living; instead, austerity and economy are being stressed.

7. Large-scale recruiting reported in South China: A large-scale recruiting drive, to be completed by 25 March, is said by several sources to be under way in Kwangtung Province. The recruits are reportedly receiving training in recently organized training centers and from major army units in the area. [REDACTED]
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Comment: A large-scale recruiting program throughout China has recently been reported by several sources.

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NEAR EAST-AFRICA

10. Soviet-Iranian trade negotiations still incomplete: Trade negotiations between the USSR and Iran under way since last September have still not resulted in a new agreement. Although the Iranian list of commodities for exchange is now in Moscow for approval, an Iranian official in the Ministry of National Economy states that there is no immediate prospect of reaching agreement, and little real desire on the part of either government for a speedy accord.

The Iranian Government is not anxious for an extensive trade agreement because such trade is conducted through direct transactions between Soviet and Iranian merchants, and because it suspects that funds acquired through trade are used by the USSR to finance Tudeh party activities. [REDACTED]

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[REDACTED]

Comment: According to several US Embassy reports, the Soviet Union has refused for over two months to release sugar now stored at the border. Moscow is probably delaying an agreement while the Anglo-Iranian dispute continues and while the possibility exists of even greater opportunities to exploit Iran's economic difficulties in the future. Meanwhile, the Iranian Government may feel less pressure to conclude an agreement because of recent American Point Four aid which could indirectly finance sugar purchases.

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WESTERN EUROPE

12. United Nations status of WFTU embarrasses Western officials in Austria: The WFTU's anomalous status in Austria as an "illegal" organization dependent upon Soviet support and as an international agency enjoying consultative status under the United Nations is creating problems for the Austrian Government and trade unions in their efforts to cold-shoulder WFTU activities.

The International Labor Organization (ILO), for example, recently accepted an invitation to send a delegate to the WFTU-sponsored Vienna conference of the International Federation of Trade Unions of Metal Workers and Machinists. The delegate, a US national, arrived with instructions to observe and address the meeting as well as to conduct other official business with the Austrian Government and trade unions. Only after

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Austrian and American officials made it clear that his attendance at the WFTU meeting would jeopardize the remainder of his mission was the delegate dissuaded from appearing at the conference.

Since the number of WFTU-sponsored international meetings in Vienna is increasing, the United States Embassy has urged that representations be made to ILO headquarters in Geneva.

[REDACTED]

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13. Benelux tries new approach to tie Britain to the Defense Community: The Benelux countries, which fear that Germany and Italy may try to use the European Defense Community for purely national objectives, that is, to regain lost territories, will ask Britain for assurances that in such an event it will become automatically involved with the Community since it is a partner of Benelux in the Brussels Pact. The American Embassy at The Hague says that this development shows Benelux is still seeking some method to tie Britain to the EDC in order to counterbalance German influence.
- [REDACTED]

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Comment: In the EDC discussions, the Netherlands has refused to agree to an automatic mutual defense clause unless the Brussels Pact is tied to the EDC treaty

[REDACTED]

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Foreign Secretary Eden will discuss the question of a British commitment to the EDC with French Foreign Minister Schuman this week, but the final decision must be made by the British Cabinet.

14. Netherlands concerned over German defense expenditures: The Netherlands Ambassador to the United States is under "urgent instructions" to state his government's concern over developments in the Paris negotiations on the division of the German defense contribution. Although the Netherlands' interest in German defense allotments has been known to the Allied powers for several months and was stressed at the Lisbon NATO meeting, the attitude of the US High Commissioner in Germany toward justifying the Allied requirements of 1.6 billion dollars from Germany has created a "deplorable impression" within the Dutch Government.
- [REDACTED]

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Comment: Both Belgium and the Netherlands have stressed the importance they attach to the principle that the German financial arrangements for defense should not result in

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additional burdens on other EDC countries. The Dutch especially emphasize the importance of using the total German contribution to build up German military strength, undoubtedly fearing a possible loss of American military assistance should the United States attempt to meet a possible German deficit in the Defense Community.

NORTH AMERICA

15. First partisan break appears in Canadian foreign policy:
Canadian Minister of External Affairs Pearson has publicly attacked the Cooperative Commonwealth Federation for asserting that the NATO Lisbon conference goal of 50 divisions by the end of 1952 will bring economic disaster to every European NATO member. Pearson pointed out that the Lisbon program actually represents a lowering of the NATO goals of last year, which the CCF then approved.

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25X1 [redacted]
Comment: Pearson's sharp response to the CCF, a minor party in Parliament, shows the significance he attaches to this first partisan attack on Canadian foreign policy since World War II.

There is no reason to anticipate a shift in Canadian policy. The CCF has not attacked Canada's own NATO contribution, which consists mainly of providing military end-item aid and training facilities.

LATIN AMERICA

16. Resignation of Brazilian General Zenobio may precipitate showdown with Vargas over pro-Communist Minister of War:
General Zenobio's resignation may force President Vargas to a decision in the current military dispute over Communist influence in the Brazilian Army. The President's refusal to accept the resignation would probably make the present pro-Communist Minister of War's position untenable. Acceptance of the resignation, on the other hand, might provoke a strong reaction from Zenobio's powerful allies among high military officials.

25X1 [redacted]
Comment: The beginnings of a division in the Brazilian armed forces, caused by a dispute as to the extent and degree

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25X1 of danger of Communist infiltration therein, became apparent last August [redacted] Since that time the division has become increasingly pronounced, primarily because of the War Minister's continued protection of Communists and pro-Communists in the army [redacted] The appointment on 15 February of the reportedly Communist Colonel Moura Moutinho Costa to the most important post in Army Intelligence has further embittered the dispute.

Zenobio, a capable, pro-US, four-star army general who has been one of the leaders in the anti-Communist campaign, has the support of most of the important officers. He commanded the Brazilian infantry division in Italy during World War II.

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NEAR EAST-AFRICA

1. Iranian Senate fails to act against Mossadeq: Prime Minister Mossadeq recently told a special Iranian Senate Committee investigating his policies and future plans that the International Bank's proposals for interim settlement of the Anglo-Iranian oil dispute were worse than anything proposed previously. Accusing the Senate of being an unwitting tool of foreign interests, Mossadeq reiterated that he would not deviate from the nationalization law. The Shah or the Senate were of course at liberty to dismiss him, Mossadeq said; however, he saw no reason to resign.

When questioned on his future plans, he assured the Senators that he would concentrate on balancing the budget and collecting taxes from the landowners and merchants. The Senate reportedly was so discouraged by Mossadeq's resolute attitude that no action was taken against him, and it adjourned until mid-April. [REDACTED]

Comment: In recent days Mossadeq had insisted that he intended to retire after the new Majlis convened sometime in April. Mossadeq's energetic presentation of the oil issue to American correspondents on 18 March and his subsequent successful denunciation of the Senate appear to indicate that he is not ready to retire.

2. American Ambassador pessimistic about British-proposed joint statement on Egypt: The American Ambassador in Cairo believes that the statement the British Cabinet proposed as a joint Anglo-Egyptian communique for the treaty negotiations represents a "degree of progress," but is "not nearly enough" to arouse Egyptian action. He is particularly disturbed by the British assumption

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that Egypt would accept a verdict on the Sudan from a Sudanese cabinet and parliament selected entirely by the British.

According to the Ambassador, his British colleague has discussed the proposed communique with Prime Minister Hilali and with an adviser of the King only in general terms, because he feels that the proposed statement concedes so little that it might disrupt the negotiations.

[REDACTED]

Comment: A Foreign Office official in London, while admitting that the British statement offers little on the Sudan question, has explained that the draft nevertheless represents the maximum concessions which the British Cabinet can make at this time.

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